

**U.S. Ambassador John Heffern's Speech for the  
Third Annual Pension Conference  
Friday, February 21, 2014**

Good Morning Mr. Prime Minister and distinguished guests. It is my pleasure to be here today to participate in the **Third Annual Pension Conference**.

The United States values its relationship with the Government and people of Armenia. We are doing whatever we can to assist in the development of the country's economic, social, and democratic systems and institutions.

For 13 years, the United States has worked with local partners to reform Armenia's social protection system, with a focus on pensions. We have worked with the Ministry of Labor and Social Affairs to build sustainable models of social services delivery and to implement broad-scale social reforms.

Why is pension reform so important?

- It is important because it affects each and every citizen.
- It is important because Armenia must find a way to provide pensioners more economic security.
- Pension reform is important because the structure of employment and Armenia's demography have changed. The pension system must change too.

- Finally, it is important because the new pension system will give workers the option to shape their pension and contribute to their own retirement savings.

Pension reform is one of the more challenging reforms that any country faces. This is why Armenia has engaged international experts and spent more than ten years carefully selecting and developing a new pension system, tailored to Armenia's demographic and economic needs.

Pension reform is controversial. It involves long-term planning by governments, employers and workers, already faced with numerous short-term pressures.

So what is this new system? The new pension system will:

1. Provide a safe and adequate pension to pensioners – this is the fundamental point; (repeat)
2. Bring workers' salary payments out of the shadow economy;
3. Streamline tax administration and reduce corruption risks;
4. Boost economic development by effectively investing the pension contributions.

We all know that implementation of the reforms will become the true test of their success. Moving forward, a number of issues are critical:

- Broad public awareness is essential. As recent developments show, people do not understand even basic questions about this reform. Armenians are asking their government: Why is this reform necessary? What does this reform do? How will it benefit the employee and future pensioner? How will it affect current pensioners?
- The government, working with civil society and the media, should educate and explain the reforms – not just once or twice, but over and over. Public trust would be enhanced if citizens on all sides of the issue have the chance to provide input as part of the Government’s public education efforts. An accurate, inclusive, transparent and comprehensive awareness campaign enhances trust towards reforms and contributes to their eventual success.
- Financial literacy is another key. Workers and future pensioners need to understand how their future pensions are shaped. Only then can they make informed choices among the investment options for their contributions.
- Important factors for the successful implementation of pension reform include: sound investment policies to develop Armenia’s economy; prudent regulations to enhance public confidence in the pension industry and to protect the interests of pension fund participants; and maximum transparency and accuracy of reporting by all.

We applaud the Government of Armenia for building the foundation for this new system. It now needs to provide more information on how the new system will ensure the safety, efficiency, and impartiality of pension contributions for all Armenians.

Employers have some responsibility too. They must embrace good corporate governance principles in order to reduce the shadow economy. The days of underreporting earnings, profits, workers' salaries and social payments to avoid taxes must come to an end.

We believe that the new pension system is prudently designed to protect the interests of future pensioners. It will provide Armenian workers with the opportunity to improve their financial security in retirement by diversifying their sources of income, including saving for retirement in a private – private -- pension fund.

Let me add an important point here, which does not seem to be well known among the Armenian public. Under this reform, the pension funds will be managed privately by two highly respected international funds managers – one French and the other German/Austrian with long track records of success.

Again, there is no denying that pension reform is controversial. Every week there are groups of citizens voicing their concern over this new policy. The

Constitutional Court is looking at some specific aspects of the law. This unease with the reform should not be surprising since it is a fundamental change to a system that has been in place for years.

We must also recognize that many Armenians lost their long-promised pensions when the Soviet Union collapsed. That memory is still fresh. In addition, there is a lack of trust among the government, Armenia's institutions and the citizenry. The government should work to close this gap in trust by seriously engaging its citizens, correcting any misunderstandings, listening to their concerns and working to address them.

This pension reform is the culmination of a ten-year reform effort by the government in close cooperation with international donors and experts. It is a model used successfully around the world with numerous safeguards designed to protect individuals' savings and contributions. The reality is that the current system in Armenia is not sustainable. Change - though difficult - is necessary.

In conclusion, I want to express our continued support for the successful implementation of this pension reform and our belief that the Government of Armenia, employers and workers will be able to implement these reforms for the long term benefit of all.

Thank you! Best wishes for a productive conference.